



Standards driving trade

**\$400 billion** – value of world food trade

**\$115** – saving per container shipment from automating customs processes

# Standards driving trade

International regulation is progressively aimed at freeing up trade and making it simpler and less bureaucratic – but there are a number of agreements, standards and protocols that some are seeing as increasingly constraining.

As the world seeks to optimize global trade flows, there are high and low points emerging that may well influence future regulatory direction and support. Much of the development in global trade has been led by the US, which, in the eyes of some, means that, while enabling global trade to develop significantly, the US has also gained more than others. For instance, over the past decade or so the vast majority of international transactions have had to go through the US clearing banks (even those not in USD), which can lead to blocking of transfers due to flagging triggers set up as part of the US anti-terrorism regulation. As the Indian Ocean becomes as important for trade as the Pacific, questions are being raised as to how the US will maintain its leadership and control – and the role that standards will play in this.

The Transpacific Partnership (TPP) links together twelve Pacific countries, including Japan but excluding China, that collectively account for 44% of US goods exports and 85% of US agricultural exports. Its ambition is to build a fully integrated economic area and establish the rules for major future growth of services and hence capital flows across the region. Critics are suspicious that this favours US technology companies and banking institutions, and further cements the role of the dollar in international trade. Supporters see that it will raise governance standards for many of China's trade partners and so put pressure on China to adhere more closely to international standards.

*Many in Asia are keen for an alternative, non-US driven agenda.*

The potentially more controversial Transatlantic Trade and Investment Partnership (TTIP) links the US and the EU. Supporters speak of an “economic NATO” that cements the world's democratic powers at an unstable time. However, several foresee a number of risks. As the US does not regulate all new types of genetic engineering of plants, animals and microbes, the argument goes that the TTIP will open the back door for such foods to enter the EU, bypassing strong current regulation and standards. The ability, for example, of individual countries to inspect food for pests and diseases will arguably be reduced, and the freedom to introduce higher local standards, that often raise the quality bar for everyone, will be reduced.

Many in Asia are keen for an alternative, non-US driven agenda, seeing their needs are better met through the RCEP (Regional Comprehensive Economic Partnership) as a separate FTA (Free Trade Agreement) that brings 16 countries together, but not including the US.

Free trade areas such as the EU, NATFA and potentially both the TTP and TTIP all restrict the use of tariffs to either tax international trade, so alternative ways for countries to protect their own interests have gained ground: quotas, licences, anti-dumping regulations, standards, import credits, export subsidies etc. Such customs procedures, technical standards and labelling / packing requirements are not directly aimed at restricting trade but add to administrative bureaucracy, so lead to the same result.

## Power and influence



Securing the safety of the global supply chain is a priority shared by governments regulating the cross-border flow of goods. It requires a dual focus: to promote and facilitate legitimate commerce, while simultaneously mitigating supply chain risks. The processes that enable government agencies to balance these dual priorities rely on data, cross-border standards, widely embraced policies, as well as cutting-edge technologies that are dramatically changing the global economy.

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Adoption of automation, with the growth in the use of sensors and other M2M mobile technologies, is helping to make trade more frictionless. There are increasingly better information flows not just between different governments but also between trading partners across manufacturing, shipping and trucking, so streamlining processes. However, this greater connectivity requires higher security and therefore standards and protocols also playing a major role here. Those setting the standards not only set the rules but are, by implication, also define the landscape. Those that want to gain from increasing automation and system efficiency have to join in the club, so this becomes another lever to bring them inside the tent. With the promise of greater efficiency from predictive analytics that make the global trade system safer and more secure, the case for joining in is compelling.

The key benefits of automation will include reduction of paperwork and lower transaction costs. As different parties all agree the standards for exchanging data, enabling the sharing of data will more effectively release cargo across borders. Matching internal and independent third party data sets via trusted trader platforms will, it is hoped, give border agencies real-time access to the most up-to-date information and so ease international trade. The days of stamping paper documents is fast being replaced by electronic verification via RFID and other M2M and IoT platforms.

But to make this work there needs to be clearer, recognized digital standards that enable all parties to collaborate. Here again the US is very much in the driving seat. Sector or regionally focused consortiums such as the IIC (Industrial Internet Consortium) formed by AT&T, Cisco, GE, IBM and Intel are a key step forward but the aim is for global standards across all industries – and all probably using a global unique entity identifier.

## Standards driving trade

While some argue that it is the global and regional mega-agreements that are setting the future trading landscape, it is clear that, underneath these, varied standards are actually driving trade. Whether safety standards for food, cars or services, communication and data standards for increased automation, they are the gateways for many imports and exports. They are being used positively to enable better, faster and safer trade, but they are also used negatively especially as non-tariff barriers to restrict trade. Going forward, standards will increasingly be used as the tactical responses to defend domestic markets, manifest change in target export markets and maintain a degree of control over importers. Without them it might be a completely level playing field and few nations really seem to want that.

*Standards will increasingly be used as the tactical responses to defend domestic markets.*

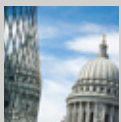
### Related insights

#### Africa growth



With a land mass bigger than India, China, the US and Europe combined, few doubt the scale of the African continent and its resources. However, until recently only some have seen it as the growth market that it is fast becoming.

#### Declining government influence



National governments' ability to lead change comes under greater pressure from both above and below - multinational organisations increasingly set the rules while citizens trust and support local and network based actions.

#### Open supply webs



The shift from centralised production to decentralised manufacturing drives many to take a 'smaller and distributed' approach: Global supply chains are replaced by more regional, consumer-orientated supply webs and networks.

#### Shifting power and influence



The centre of gravity of economic power continues shifting eastwards, back to where it was 200 years ago. Recent superpowers seek to moderate the pace of change but the realities of population and resource locations are immovable.